Task Force on Tax and Fiscal Policy
2016 Annual Meeting | Indianapolis, Indiana
July 28, 2016

Model Policy Summaries

New Model Policies for Task Force Consideration:

State Constitutional Amendment for a Balanced Budget
This policy proposes an amendment to the Constitution of the state concerning state fiscal matters. The amendment requires the state to limit expenses to levels below that of anticipated revenue and save two percent of expected revenue annually. A two-thirds majority vote of both houses is required to allow the state to take on new debt. However, new debt may only be taken on in response to existential threats to the state.

Resolution in Favor of Tangible Personal Property Tax Repeal
Taxes on business personal property, a type of tax that is levied in many states, violate common principles of taxation (such as neutrality, efficiency, transparency, or benefits received). In recognition of the economic and tax policy flaws inherent with personal property taxes, most states have acted to eliminate or limit them. This resolution calls upon state legislators to repeal tangible personal property taxes where they continue to be imposed. If taxes cannot be eliminated completely, they should at the very least be eliminated on inventory and inherently mobile property.

ALEC Statement of Principles on Sound Pension Practices
Retirees, taxpayers and workers expect the state government to wisely steward pension investments. Therefore, the state government is responsible for making the best possible investments to fully fund future pension benefits. The ALEC Statement of Principles on Sound Pension Practices provides guiding policy principles for a responsible, accountable, and transparent government pension system.

Uniform Standard for Lodging Taxes Act (*dually referred with the Task Force on Communications and Technology*)
The Uniform Standard for Lodging Taxes Act repeals local lodging taxes and creates a statewide lodging tax that applies equally to both traditional lodging properties and online rental units. The Act specifies that revenue from the tax shall be sent to the county and city governments that the lodging property is located in for use as specified by current state law. The Act specifies that the tax rate should be equal to the state's sales and use tax rate, or five percent if the state does not have a sales and use tax.

New Model Policies for Task Force Consideration:

A Model Act Relating to Lodging Marketplaces – to Establish Statewide Standards, Protect Privacy, and Enable Efficient Tax Remittance (*dually referred with the Task Force on Communications and Technology)*
Internet platforms are enabling more Americans to earn extra income from their homes and investment properties through short-term and vacation rentals. At the same time, American travelers and family vacationers are saving money by renting fully-furnished homes instead of hotel rooms. The growth of this new market is encountering resistance from many local governments, in the form of zoning restrictions and prohibitions that prevent homeowners from using their residences for short-term rentals.

In 2016, Arizona enacted breakthrough legislation that enables short-term rentals while increasing tax revenue and preserving limited local regulation. The Arizona law stops local governments from prohibiting short-term rentals, while allowing local enforcement of regulations on parking and public safety. This law also makes taxes more efficient by allowing online platforms to collect and pay taxes at the state level, relieving homeowners of the need to file individually.

The Arizona law serves as the basis for this ALEC model policy that can help every state realize the benefits of short-term rental income and increased tourism.

Draft Act to Identify Coercive Federal Funds in the Budget of [Insert State] (*dually referred with the Federalism and International Relations Task Force*)
The Draft Act to Identify Coercive Federal Funds in the Budget of [INSERT STATE] would significantly increase transparency on the federal government's coercion of the state through the manipulation of federal fiscal assistance to the states. It would require the state's budget bureau or fiscal board to identify all the conditions attached to significant sources of federal funds in the state budget, and categorize them according to whether the conditions affect how the federal funds are spent, or instead affect what the state does with its own funds and regulatory authority. If enacted, by operation of law it designates conditions attached to matters other than how the federal funds are to be spent as coercive conditions for purposes of state law, and declares it the policy of the state to resist all such conditions and to work together with other states to end such federal programs. This Act seeks to "operationalize" Justice O'Connor's dissent in South Dakota v. Dole (1987) and the Medicaid portion of the Supreme Court's ruling in NFIB v. Sebelius (2012).

Amendments to Existing Model Policy:
Tax Expenditure Transparency Act
This policy requires legislative intent and measureable performance goals for each tax expenditure created. The proposed amendments would require the state to compile a comprehensive tax expenditure report. The comprehensive tax expenditure report would assist the legislature in deciding whether or not to continue existing tax expenditures.

Model Policies for Five Year Review:

Item-Reduction Veto Constitutional Amendment

The Item-Reduction Veto Constitutional Amendment is a constitutional provision which allows governors to reduce spending without striking the entire amount. Governors will not be forced into take-it or leave-it offers, and will therefore find it easier to control spending.

State Agency Lobbying Reform Act

The State Agency Lobbying Reform Act aims to prevent state agencies from using taxpayer dollars or employees to engage in lobbying activities. This policy also calls for more transparency in reporting any advocacy activities.

Local Government Transparency Act

The Local Government Transparency Act promotes accountability by providing strict standards for local government and school district transparency. Specifically, this policy mandates that online budget websites must list contracts, contact information for elected and appointed officials, schedule of meetings, and contracts with lobbying firms.

Pension Funding and Fairness Act

The Pension Funding and Fairness Act combines a traditional spending limit with debt paydown, rainy day fund and taxpayer refund provisions. First, the Act establishes a Spending Growth Index of inflation plus population growth which is used as a limit on state spending each year. Second, the Act requires remaining general funds to be used to pay down past due debt through a Past Due Paydown Fund. Once the state's past debt has been paid down, revenues above the Spending Growth Index will be placed in a Budget Stabilization Fund equal to no more than 8 percent of the General Revenue Fund's total spending and could only be accessed during revenue shortfalls and economic downturns. Finally, once state debt has been paid down and the Budget Stabilization Fund fully is funded, revenues above the Spending Growth Index will be sent to a Taxpayer Relief Fund, which will issue refunds to taxpayers annually according to the number of exemptions filed on their most recent tax return.

ALEC Statement of Principles on Fixing State and Local Government Defined-Benefit Plans

To solve the funding crises in state and local defined-benefit plans for public employees, the American Legislative Exchange Council recommends that defined-benefit plans be replaced by defined contribution plans. However, should a state or locality choose to continue with a defined-benefit model, these policy principles provide thoughtful reforms to fix labor and cost problems that defined-benefit plans tend to create.

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Dear Tax and Fiscal Policy Task Force Member,

Welcome to Indianapolis! I am glad you joined us for this year's Annual Meeting and hope you are enjoying the Hoosier hospitality. It is shaping up to be a remarkable year of growth for ALEC and an exciting year for our Tax and Fiscal Policy Task Force. We have partnered with members and allies to hold 41 events in 23 states. Here is a summary of some of the exciting work done by our task force and the Center for State Fiscal Reform and what you can expect in the near future:

In June, I had the pleasure of being hosted by Governor Scott Walker and ALEC National Chairman Senator Leah Vukmir in Madison, Wisconsin to celebrate Wisconsin's first-ever top ten economic outlook ranking in the *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*. The festivities included a panel discussion, with Wisconsin State Chair Representative John Nygren and Senate Finance Committee Chair Alberta Darling showing their support for the pro-growth reforms recently implemented in Wisconsin. More than 100 individuals attended, including two dozen state legislators and former governor Scott McCallum.

As always, this year's *Rich States, Poor States* research is being published using a two-part release strategy. Just before Tax Day, we released the 2016 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* state rankings. We reached more than 25 million individuals with the *Rich States, Poor States* message that state competitiveness matters. Later this year, expect the complete, hard copy 9th edition, including all new chapters and case studies. Before then, however, we will release a wave of new research. After joining the ALEC family as a project of the Center for State Fiscal Reform, State Budget Solutions' crucial work studying pension reform will continue, culminating in a report on each state's unfunded pension liabilities to be released later this summer. Additionally, since pension reform is such a critical issue, we will release an all-new report this fall centered on the cronyism and political influences causing so many state pension funds to be poorly governed. More immediately, though, will be our newest edition of the annual *State of the States* report, which serves to highlight the fiscal policy proposals the 50 governors have been offering to their legislatures and constituents.

This coming September, we will host a first-ever Regional Tax and Fiscal Policy Academy for legislative leaders in Portland, Maine. Legislators representing 11 states, from Maine to Maryland, will be invited to attend two days of education, training and the exchange of responsible fiscal policy ideas that serve as the hallmark of the Center for State Fiscal Reform. If you are interested in partnering with us in this new opportunity, please feel free to contact me during this Annual Meeting. We are looking to expand this concept to additional regions in 2017 as well!

I am continually delighted to have this opportunity to serve as the Vice President for the Task Force on Tax and Fiscal Policy and the ALEC Center for State Fiscal Reform. I look forward to the many opportunities ahead to work together and promote principled, pro-growth ideas in the states. Please do not hesitate to contact me if I can ever be of assistance. I am always interested in sharing our research with you, your colleagues and constituents, and would be happy to bring our research to your state capitol or community.

Sincerely,

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